

Message Text

CONFIDENTIAL

PAGE 01 CARACA 04221 01 OF 02 102255Z

63

ACTION ARA-20

INFO OCT-01 ISO-00 SS-20 NSC-07 L-03 H-03 AID-20 CIAE-00

COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00

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R 102051Z MAY 74

FM AMEMBASSY CARACAS
TO SECSTATE WASHDC 3769

C O N F I D E N T I A L SECTION 1 OF 2 CARACAS 4221

E.O. 11652: GDS

TAGS: EGEN, VE

SUBJECT: EFFECTS ON U.S. INVESTMENT OF VENEZUELAN PRESIDENT'S
ECONOMIC POLICY MESSAGE OF APRIL 29

REF: A. STATE 094675; B. CARACAS 4134; C. CARACAS 4143
D. CARACAS 4133; E. CARACAS 4139

1. WE ARE DOING AND WILL DO OUR BEST TO ANALYZE EFFECTS ON
U.S. INVESTMENT OF VENEZUELAN PRESIDENT'S POLICY MESSAGE OF
APRIL 29. WE FIND IT PRACTICALLY IMPOSSIBLE, HOWEVER, TO
PROVIDE DATA REQUESTED IN REF A, BECAUSE OF SENSITIVITY OF
AMERICAN FIRMS TO PROVIDING SUCH DATA, PARTICULARLY WHEN
APPLICATION OF NEW POLICY TO INDIVIDUAL FIRM IS NOT CLEAR.
WE BELIEVE THAT COLLECTION OF SUCH DATA IS PREMATURE, AND
THAT DATA REQUESTED REF A WOULD AT THIS STAGE GIVE DISTORTED
IDEA OF MAGNITUDE OF PROBLEM. WE HAVE COORDINATED OUR
ACTIVITIES ON THESE PROBLEMS WITH STAFF OF AMERICAN CHAMBER
OF COMMERCE. SENSITIVITY OF AMERICAN FIRMS TO PROVIDING SUCH
DATA IS PROBABLY MUCH GREATER THAN DEPARTMENT APPRECIATES.
CHAMBER AND AMERICAN FIRMS FOR EXAMPLE HAVE STRONGLY OPPOSED
EMBASSY'S UPDATING LIST OF AMERICAN FIRMS, BECAUSE THIS LIST
WAS ONCE PUBLISHED BY PRO-VENEZUELA ASSOCIATION IN ATTACK
ON MAGNITUDE OF U.S. INVESTMENT.

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PAGE 02 CARACA 04221 01 OF 02 102255Z

2. WE DO NOT WISH TO PLAY DOWN POSSIBLE SERIOUSNESS OF EFFECTS ON U.S. INVESTMENT, BUT WE DO ANTICIPATE THAT IMMEDIATE IMPACT WILL AFFECT ONLY RELATIVELY SMALL PORTION OF U.S. INVESTMENT. DEPARTMENT OF COMMERCE'S SURVEY OF CURRENT BUSINESS GIVES FIGURE OF 2.68 BILLION DOLLARS FOR U.S. INVESTMENT IN VENEZUELA, PLACING IT ABOUT FIFTH IN WORLD IN TOTAL U.S. INVESTMENT. OF THIS 2.68 BILLION DOLLARS, HOWEVER, 1.54 BILLION DOLLARS ARE IN PETROLEUM, WHICH IS SEPARATE PROBLEM NOT DIRECTLY AFFECTED BY APRIL 29 POLICIES. SERVICE AND INTERNAL COMMERCE COMPANIES AFFECTED BY POLICY OF VENEZUELANIZATION PROBABLY REPRESENT ONLY SMALL PORTION OF REMAINING 1.1 BILLION DOLLARS, SINCE CAPITAL INVESTMENT IN SUCH ACTIVITIES IS USUALLY SMALL AS COMPARED TO MANUFACTURING COMPANIES. SINCE DEPARTMENT OF COMMERCE AS FIGURES ON TOTAL INVESTMENT IN VENEZUELA IT OBVIOUSLY HAS DATA ON INVESTMENT OF INDIVIDUAL AMERICAN FIRMS.

3. NAMES AND TOTAL INVESTMENT OF U.S. FIRMS LIKELY TO BE AFFECTED BY ARTICLE 43 ANDEAN PACT DECISION 24 (PARA 1 A REF A). SEARS ROEBUCK (REPORTED ON IN REF B) AND CADA SUPERMARKET CHAIN ARE MOST OBVIOUS FIRMS ENGAGED IN INTERNAL COMMERCE. AS REPORTED PREVIOUSLY NUMBER OF OTHER FIRMS COULD BE AFFECTED BECAUSE THEY ARE ENGAGED PRIMARILY IN INTERNAL COMMERCE RATHER THAN MANUFACTURING. DECREE IMPLEMENTING APRIL 29 POLICY MESSAGE ON THIS POINT, HOWEVER, HAS NOT BEEN ISSUED, AND COMPANIES DO NOT WISH TO BE IDENTIFIED UNTIL IT IS CLEAR POLICY WILL APPLY TO THEM. STILL UNCLEAR IS EXTENT TO WHICH COMPANY MUST BE INVOLVED IN INTERNAL COMMERCE BEFORE POLICY APPLIES, AND WHETHER THAT PORTION OF THEIR OPERATION CAN BE SEPARATED. FIGURES ON TOTAL INVESTMENT THEREFORE MAY BE MEANINGLESS. WE CITE THREE RECENT EVIDENCES OF SENSITIVITY ABOUT SUCH LISTING. IN DAYS IMMEDIATELY PRECEDING APRIL 29 POLICY MESSAGE, AMERICAN CHAMBER BEGAN TO DEVELOP LIST OF COMPANIES ENGAGED IN INTERNAL COMMERCE TO PRESENT TO VENEZUELAN GOVERNMENT OFFICIALS TO DEMONSTRATE MAGNITUDE OF ACTION, BUT CHAMBER DESISTED ABRUPTLY AT EARLY STAGE WHEN IT REALIZED SUCH LIST WOULD PROBABLY LATER BE USED TO IDENTIFY COMPANIES FOR GOVERNMENT RESTRICTIONS. TIME MAGAZINE CORRESPONDENT SUBSEQUENT TO APRIL 29 ASKED EMBASSY OFFICER TO PROVIDE INVESTMENT DATA ON SPECIFIC FIRMS
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 CARACA 04221 01 OF 02 102255Z

AND IDENTIFY WHICH ONES MIGHT BE AFFECTED. EMBASSY OFFICER DECLINED ON BASIS THESE DATA WERE COMPANY INFORMATION, AND ON OFF-RECORD BASIS TOLD TIME CORRESPONDENT HE DID NOT WISH TO EARMARK U.S. FIRMS FOR VENEZUELAN RESTRICTIONS. THIS WEEK OFFICIAL OF FOREIGN TRADE INSTITUTE ASKED EMBASSY OFFICER FOR LISTING OF U.S. FIRMS AND WAS REFERRED TO CHAMBER OF COMMERCE YEARBOOK FOR LISTING OF FIRMS. (MANY SMALLER FIRMS, PERHAPS HALF OF U.S. FIRMS IN COUNTRY, ARE NOT MEMBERS OF

CHAMBER.)

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PAGE 01 CARACA 04221 02 OF 02 110005Z

63

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FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 3770

C O N F I D E N T I A L SECTION 2 OF 2 CARACAS 4221

4. LIKELIHOOD OF FAIR PRICE FOR SHARES OF COMPANIES (PARA 1B, REF A). CAPITAL MARKET HERE IS ONLY BEGINNING TO DEVELOP. AT SAME TIME, SOME AMERICAN FIRMS WOULD BE HIGHLY PREFERRED INVESTMENT BY VENEZUELANS. DECREE IMPLEMENTING DECISION HAS NOT YET BEEN ISSUED, AS POINTED OUT ABOVE. MOREOVER, FINANCE MINISTER REPORTEDLY WISHES TO REVISE CAPITAL MARKET LAW TO PREVENT VENEZUELAN OLIGARCHY FROM BUYING UP SUCH FIRMS. WHILE PERHAPS DESIRABLE FROM VENEZUELAN SOCIO-ECONOMIC POINT OF VIEW, THIS CHANGE COULD REDUCE SALES POSSIBILITIES. VENEZUELAN GOVERNMENT WITH ITS HIGH OIL REVENUES COULD EASILY AFFORD TO SET UP LOANS TO SUBSIDIZE PRIVATE VENEZUELAN PURCHASES OF SHARES, BUT EMBASSY DOES NOT KNOW WHETHER IT WOULD CONSIDER DOING SO. WE BELIEVE TENTATIVE U.S. COURSE OF ACTION SHOULD BE TO AWAIT ESTABLISHMENT OF RULES, SEE HOW THEY WORK, AND IF THERE ARE DIFFICULTIES PRESS VENEZUELAN GOVERNMENT TO EXTEND TIME OR TAKE ACTION TO FACILITATE FAIR-PRICE PURCHASES.

5. EFFECTS ON U.S. EMPLOYEES RESIDENT IN VENEZUELA (PARA 1C REF A). ALTHOUGH VENEZUELAN LEGISLATION DOES RESTRICT NUMBER OF FOREIGN EMPLOYEES IN CERTAIN ACTIVITIES, E.G. TV BROJXD-CASTING, THERE IS NO EVIDENCE THUS FAR THAT SUCH RULES WILL BE APPLIED TO VENEZUELANIZATION OF OWNERSHIP OF SERVICE AND

INTERNAL COMMERCE COMPANIES. IT IS CONCEIVABLE THAT U.S.
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PAGE 02 CARACA 04221 02 OF 02 110005Z

MANAGERIAL EMPLOYEES COULD CONTINUE UNDER 80-20 PERCENT
DIVISION OF OWNERSHIP AS BEFORE. SOME REDUCTION OF U.S.
MANAGEMENT PERSONNEL WOULD PROBABLY BE INVOLVED ON THE
OVER-ALL. FURTHER VENEZUELANIZATION OF MANAGEMENT IS IN
GENERAL, HOWEVER, A GOOD PRACTICE, EVEN FOR COMPANIES NOT
AFFECTED BY THIS POLICY MESSAGE. SOME COMPANIES HAVE GONE
MUCH FARTHER THAN OTHERS IN EMPLOYING VENEZUELAN EXECUTIVES.
RELEVANT TO THIS ISSUE IS RECENT STATEMENT OF PRESIDENT OF
PETROLEUM ENGINEERS ASSOCIATION THAT CONTINUED EMPLOYMENT
OF FOREIGN MANAGERIAL PERSONNEL IS NOT COMPATIBLE WITH NATIONALIZA-
TION OF OIL INDUSTRY (REF C).

6. NATIONALIZATION OF IRON ORE SECTOR HAS BEEN DEALT WITH
IN REF D AND E, AND PREVIOUS.

7. EMBASSY WILL REPORT ANALYSES OF DECREE ON ARTICLE 43 OF
ANDEAN PACT DECISION 24, AND OF OTHER DEVELOPMENTS IN
IMPLEMENTATION OF PRESIDENT'S ECONOMIC POLICY MESSAGE OF
APRIL 29. WE SHARE VIEW OF LOCAL AMERICAN BUSINESS COMMUNITY,
HOWEVER, THAT ANY PUBLIC CONFRONTATION WITH VENEZUELAN
GOVERNMENT ON FOREIGN INVESTMENT EFFECTS OF APRIL 29 POLICIES
WOULD DO US MUCH HARM, BECAUSE THESE POLICIES ARE HIGHLY
POPULAR NOT ONLY WITHIN VENEZUELAN EXECUTIVE AND LEGISLATIVE
BRANCHES BUT ALSO WITH GENERAL PUBLIC.
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